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C O N F I D E N T I A L YEREVAN 000156

SIPDIS

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TAGS: [ECON](#) [EFIN](#) [ETRD](#) [KTDB](#) [AM](#)
SUBJECT: PRICES INCREASE FOLLOWING SUDDEN DRAM DEVALUATION

Classified By: DCM Joseph Pennington, reasons 1.4 (b/d)

SUMMARY

[11.](#) (U) In response to the 25 percent drop in the Armenian Dram (AMD) on March 3, following the end of Central Bank of Armenia (CBA) intervention, prices for many essential products increased immediately while shoppers quickly emptied stores of many imported items before the prices increased. Some of the largest stores and supermarkets suspended trade while determining where the AMD will settle and to adjust their prices accordingly. As of today, the bid/ask price varies from 355-380 to 365-400. END SUMMARY.

GASOLINE PRICES JUMP IMMEDIATELY

[12.](#) (U) Gasoline stations were among the first to react to the AMD's sudden loss of value, with the price of Premium (Euro 95) gasoline increasing from AMD 260/litre to 310 or 330 at some stations well before COB Tuesday. Prices of some imported staples, including sugar, oil, butter and rice also increased by 20-30 percent. The shelves of most grocery stores and supermarkets emptied within a few hours Tuesday, with people rushing to stock up on these items in expectation of further price increases.

DISCOURAGING PRICE GOUGING

[13.](#) (U) The State Commission for Protection of Economic Competition on Tuesday called on large importers, retail traders and producers to refrain from price gouging. The Commission said it would carry out hourly monitoring of the prices of staple items in order to prevent unjustified increases. The Commission announced that some companies had already received warnings.

DRAM VALUE STABILIZES, BUT WOBBLY

[14.](#) (U) The price of the AMD is beginning to settle, with banks buying dollars for 355 to 365 Drams, and selling for 380 to 400. However, bid/ask spreads of 25 or even 35 Drams (compared to usual spreads of about two Drams)--and differences of 10-20 Drams between rates offered by the banks--suggest there remains considerable uncertainty about just how stable the floating Dram is at the moment. However, banks will need to close variations between their rates or will create arbitrage opportunities.

COMMENT

[15.](#) (C) It may still take a few days for the Dram price to settle, with the most important indicator of stability being a reduction of the bid/ask spread. We expect the Commission for the Protection of Economic Competition to have a challenging task: Some sellers are likely to increase prices--whether or not they import--to take advantage of the devaluation. Sales of many staple imports are monopolized by government-connected oligarchs over whom the Commission has little influence. They might be more readily influenced by a

directive from the President. It remains to be seen whether there will be sufficient public outcry over price increases from a devalued Dram to prompt the President to take such action--and whether he is in a position to do so. END
COMMENT.
YOVANOVITCH